

CONFIDENTIAL INFORMATION SECRET REPORT

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SUPPLEMENT TO 25X1X

1. A high-ranking official of the Central Administration stated recently that experience gained in socialized plants had demonstrated that the drawbacks of the Hennecke system of increased output outweigh by far its advantages. In cases of steadily increasing performance, e.g., allocated raw materials were often used up prematurely, or else a certain production phase became so much advanced that it became impossible to keep the various phases of the production process properly coordinated.
2. Past experience also showed that the granted wage increases automatically raise the average production costs. This, in turn, means that the sales price has to be raised, since the plant is unable to absorb the added production costs.
3. The SED has therefore come to the conclusion, the official said, that all propaganda referring to the Hennecke system should be gradually abandoned, and that this system should be replaced by the former method of computing wages on an hourly basis coupled with certain output requirements. It was planned, however, he said, to introduce as an incentive to workers a premium system similar to that in force in Russia.

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